

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <i>Vandalia</i>	County <i>CASS</i>
Audit Date <i>2/29/2004</i>	Opinion Date <i>2/18/2005</i>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <i>RICHARD L. BALDERMAN</i>			
Street Address <i>1197 WILD CHERRY DRIVE</i>	City <i>WILLIAMSTON</i>	State <i>MI</i>	ZIP <i>48895</i>
Accountant Signature <i>Richard L. Baldermann</i>			

Richard L. Baldermann

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February 18, 2005

Village of Vandalia, Cass County  
P.O. Box 57  
Vandalia, Michigan 49095

Independent Auditor's Report

Dear Council Members:

I have audited the accompanying statement of assets, liabilities and fund equity arising from cash transactions of the Village of Vandalia as of February 29, 2004 and the related statement of revenue collected, expenditures paid, and changes in retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Village's management. My responsibility is to express an opinion on those financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note B, these financial statements were prepared on a basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of the Village of Vandalia as of February 29, 2004, and its revenue collected, expenditures paid and changes in retained earnings and cash flows during the year then ended, on a basis of accounting described in Note B.

Richard L. Baldermann, CPA, CGFM

**Village of Vandalia, Cass County  
February 29, 2004  
TABLE OF CONTENTS**

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	
GENERAL PURPOSE FINANCIAL STATEMENTS	
Combined Statement of Assets and Liabilities Arising from Cash Transactions-All Fund Types	1
Combined Statement of Cash Receipts, Disbursements and Changes in Fund Balance-All Governmental Funds	2
Combined Statement of Cash Receipts, Disbursements and Changes in Fund Balance-Budget to Actual-All Governmental Funds	3
Statement of Cash Receipts, Expenses and Changes in Retained Earnings-Internal Service Fund-Motor Equipment Fund	4
Statement of Cash Flows- Internal Service Fund-Motor Equipment Fund	5
Notes to the Financial Statements	6
COMBINING FINANCIAL STATEMENTS	
Combining Statement of Assets and Liabilities Arising from Cash Transactions-Special Revenue Funds	11
Combining Statement of Cash Receipts, Disbursements and Changes In Fund Balance-Special Revenue Funds	12

**VILLAGE OF VANDALIA, CASS COUNTY**

**Exhibit 1**

**Combined Statement of Assets and Liabilities Arising from Cash Transactions**

**All Fund Types**

**February 29, 2004**

	<u>Governmental Fund Type</u>		<u>Proprietary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Internal Service</u>	
<u>Assets</u>				
Cash	\$ 42,548	\$ 86,564	(31,773)	\$ 97,339
Equipment (Net of Depreciation)			37,445	37,445
Due From Others	13,698			13,698
Due From Other Funds	35,957	42,116	67,739	145,812
Total Assets	<u>\$ 92,202</u>	<u>\$ 128,680</u>	<u>73,411</u>	<u>\$ 294,293</u>
<u>Liabilities and Fund Equity</u>				
<u>Liabilities</u>				
Due to Other Funds	17,548	\$ 89,558	\$ 38,706	\$ 145,812
Due to State	139			\$ 139
Due to Federal	1,040			\$ 1,040
Deferred Revenue	13,698			\$ 13,698
<u>Fund Equity</u>				
Fund Balance	59,777	\$ 39,122		98,899
Retained Earnings			34,705	34,705
TOTALS	<u>92,202</u>	<u>\$ 128,680</u>	<u>\$ 73,411</u>	<u>\$ 294,293</u>

The Notes to Financial Statements are an integral part of this statement

VILLAGE OF VANDALIA, CASS COUNTY  
**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS**  
**AND CHANGES IN FUND BALANCE**  
**ALL GOVERNMENTAL FUND TYPES**  
For the Year Ended February 29, 2004

EXHIBIT 2

	<b>GOVERNMENTAL FUND TYPES</b>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Revenues			
Taxes	39,029		\$ 39,029
State Grants	53,563	\$ 39,180	92,743
Federal Grants	20	21,430	
Licenses and Permits	888		
Charges for Services	150		
Interest and Rents	762	524	1,286
Other	3,158	212	3,370
Total Revenues	<u>97,570</u>	<u>61,346</u>	<u>136,428</u>
Expenditures			
General Government			-
Village Council	12,027		12,027
President	3,284		3,284
Clerk	21,738		21,738
Treasurer	3,718		3,718
Building and Grounds	30,784		30,784
Cemetery			-
Public Safety			
Building Inspection	1,123		1,123
Public Works			
Street Lighting	4,014		4,014
Streets		33,958	33,958
Health and Welfare			
Ambulance	3,944		3,944
Community and Economic Development			
Community Promotion	2,480	119	2,599
Recreation and Culture			
Parks			-
Other Functions			
Insurance and Bonds	10,099		10,099
Capital Outlay			
Village Hall Improvements		40,465	40,465
Office Equipment and Furniture			
Total Expenditures	<u>93,211</u>	<u>74,542</u>	<u>167,753</u>
Excess of Revenues Over (Under) Expenditures	<u>4,359</u>	<u>(13,196)</u>	<u>(8,837)</u>
Other Financing Sources (Uses)			
Operating Transfers In		26,509	26,509
Operating Transfers (Out)	(6,667)	(19,841)	(26,508)
Total Other Financing Sources (Uses)	<u>(6,667)</u>	<u>6,668</u>	<u>1</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(2,308)</u>	<u>(6,528)</u>	<u>(8,836)</u>
Fund Balance--March 1, 2003	<u>62,085</u>	<u>45,650</u>	<u>107,735</u>
Fund Balance--February 29, 2004	<u>\$ 59,777</u>	<u>\$ 39,122</u>	<u>\$ 98,899</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VANDALIA, CASS COUNTY**  
**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS**  
**AND CHANGES IN FUND BALANCE--Budget to Actual**  
**ALL GOVERNMENTAL FUND TYPES**  
**For the Year Ended February 29, 2004**

**EXHIBIT 3**

	General Fund			Special Revenue Funds		
	Amended Budget	Actual	Favorable (Unfavorable)	Amended Budget	Actual	Favorable (Unfavorable)
<b>Revenues</b>						
Taxes	\$ 40,233	\$ 39,029	\$ (1,204)			
State Grants	65,000	53,563	(11,437)	\$ 29,500	\$ 39,180	\$ 9,680
Federal Grants		20	20	2,000	21,430	19,430
Licenses and Permits	1,000	888	(112)			
Charges for Services		150	150			
Interest and Rents	300	762	462	5	524	519
Other	2,500	3,158	658	400	212	(188)
<b>Total Revenues</b>	<b>109,033</b>	<b>97,570</b>	<b>(11,463)</b>	<b>31,905</b>	<b>61,346</b>	<b>29,441</b>
<b>Expenditures</b>						
General Government						
Village Council	9,000	12,027	(3,027)			
President	3,500	3,284	216			
Professional Services	15,000		15,000			
Elections	300		300			
Attorney	500		500			
Clerk	10,000	21,738	(11,738)			
Treasurer	3,000	3,718	(718)			
Building and Grounds	40,000	30,784	9,216			
Cemetery	500		500			
Public Safety						
Building Inspection	1,200	1,123	77			
Public Works						
Street Lighting	5,000	4,014	986			
Streets				30,000	33,958	(3,958)
Health and Welfare						
Ambulance	6,000	3,944	2,056			
Community and Economic Development						
Community Promotion	300	2,480	(2,180)	160	119	41
Recreation and Culture						
Parks	500		500			
Other Functions						
Insurance and Bonds	11,000	10,099	901			
Capital Outlay						
Village Hall Improvements				21,980	40,465	(18,485)
<b>Total Expenditures</b>	<b>105,800</b>	<b>93,211</b>	<b>12,589</b>	<b>52,140</b>	<b>74,542</b>	<b>(22,402)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>3,233</b>	<b>4,359</b>	<b>(1,126)</b>	<b>(20,235)</b>	<b>(13,196)</b>	<b>(7,039)</b>
<b>Other Financing Sources (Uses)</b>						
Operating Transfers In				20,000	26,509	(6,509)
Operating Transfers (Out)	(20,000)	(6,667)	(13,333)		(19,841)	19,841
<b>Total Other Financing Sources (Uses)</b>	<b>(20,000)</b>	<b>(6,667)</b>	<b>(13,333)</b>	<b>20,000</b>	<b>6,668</b>	<b>13,332</b>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other U:</b>	<b>(16,767)</b>	<b>(2,308)</b>	<b>(14,459)</b>	<b>(235)</b>	<b>(6,528)</b>	<b>6,293</b>
<b>Fund Balance--March 1, 2003</b>	<b>109,163</b>	<b>62,085</b>	<b>47,078</b>	<b>82,779</b>	<b>45,650</b>	<b>37,129</b>
<b>Fund Balance--February 29, 2004</b>	<b>\$ 92,396</b>	<b>\$ 59,777</b>	<b>\$ 32,619</b>	<b>\$ 82,544</b>	<b>\$ 39,122</b>	<b>\$ 43,422</b>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VANDALIA, CASS COUNTY**  
**STATEMENT OF CASH RECEIPTS, EXPENSES AND**  
**CHANGES IN RETAINED EARNINGS--INTERNAL SERVICE**  
**FUND--MOTOR EQUIPMENT FUND**  
**For the Year Ended February 29, 2004**

**EXHIBIT 4**

Operating Revenues	
Equipment Rentals	<u>19,190</u>
Total Operating Revenues	<u>\$ 19,190</u>
Operating Expenses	
Operating Supplies	
Gasoline and Oil	1,231
Repairs and Maintenance	527
Depreciation	<u>6,887</u>
Total Operating Expenses	<u>8,645</u>
Operating Income (Loss)	<u>10,545</u>
Net Income (Loss)	10,545
Beginning Retained Earnings	<u>24,160</u>
Ending Retained Earnings	<u><u>\$ 34,705</u></u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VANDALIA, CASS COUNTY**  
**STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUND—MOTOR EQUIPMENT FUND**  
**For the Year Ended February 29, 2004**

**EXHIBIT 5**

	<b>INTERNAL SERVICE FUNDS</b>
	<u>Motor Equipment</u>
Cash Flows From Operating Activities	
Payments to Vendors	(3,629)
Net Cash Provided by Operating Activities	(3,629)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,629)
Cash and Cash Equivalents at Beginning of Year	(28,144)
Cash and Cash Equivalents at End of Year	<u>\$ (31,773)</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 10,545
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	6,887
Decrease (Increase) in Due From Other Funds	(19,190)
Increase (Decrease) in Due to Other Funds	38,115
Decrease (Increase) in Equipment	(39,986)
Net Cash Provided by Operating Activities	<u>(3,629)</u>

**The Notes to Financial Statements are an integral part of this statement.**



VILLAGE OF VANDALIA  
NOTES TO THE FINANCIAL STATEMENTS  
February 29, 2004

**NOTE A-DESCRIPTION OF OPERATIONS AND FUND TYPES**

The Village of Vandalia is located in Cass County and covers an area of one square mile. The Village provides services to its 429 residents in many areas including fire protection, community enrichment and development, and human services. The Village is a general law village governed by a six member council elected by the citizens of the Village of Vandalia. The Village Council consists of the president and six council members.

**Reporting Entity**

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the funds and account groups of the Village.

The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on this criteria, there are no component units that should be included in the financial statements of the Village.

**BASIS OF PRESENTATION**

The accounts of the Village are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Village are recorded in separate funds and account groups, categorized as follows:

**GOVERNMENTAL FUNDS**

**General Fund**

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of general village departments, boards and commissions. The fund includes the general operating expenditures of the Village.

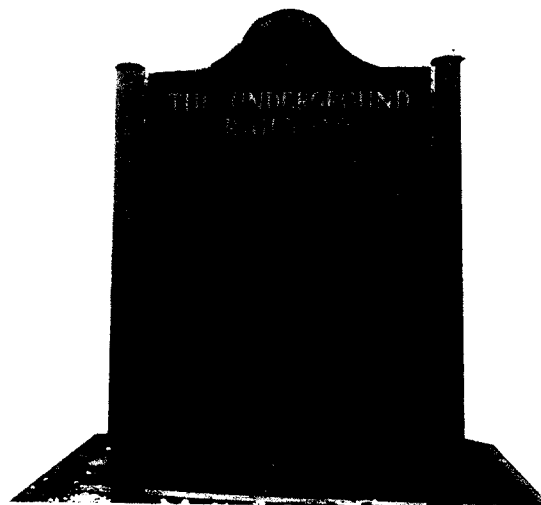
**Special Revenue Funds**

These funds are used to account for specific revenue (other than expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

**PROPRIETARY FUNDS**

**Internal Service Fund**

This fund accounts for the financing of goods and services provided by one department or agency to other departments or agencies of the village, or to other governmental units on a cost reimbursement basis.



VILLAGE OF VANDALIA  
NOTES TO THE FINANCIAL STATEMENTS  
February 29, 2004

NOTE A-DESCRIPTION OF OPERATIONS AND FUND TYPES (Continued)

ACCOUNT GROUP

General Fixed Assets Account Group

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group rather than in the governmental funds. General fixed assets purchased are recorded as expenditures in the governmental funds at the time of purchase and should be capitalized in the General Fixed Assets Account Group. The General Fixed Asset Account Group has not been maintained.

NOTE B-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Vandalia do not conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Village's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, certain revenue and the related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles, but rather to reflect the cash transactions of the Village.

Property Taxes

The Village property tax is levied and collectible on July 1 on the taxable valuation of property located in the Village as of the preceding December 31st. Taxes are returned delinquent to the County Treasurer on September 15.

It is the Village's policy to recognize revenues in the current year when they are made available for the financing of Village operations. Payment from the County, which purchases the delinquent taxes, is recorded as revenue when received in cash.

The 2003 taxable value of the Village of Vandalia amounted to \$2,682,267, on which ad valorem taxes of 15 mills were levied for Village operating purposes. The 2003 current tax levied included \$40,234 for village operations. The delinquent real and personal taxes totaling \$11,326.32 will be recorded as revenue when received in fiscal year ended February 28, 2005.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

VILLAGE OF VANDALIA  
NOTES TO THE FINANCIAL STATEMENTS  
February 29, 2004

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Total Column on Combined Statements--Overview

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

NOTE C--LEGAL COMPLIANCE

Equipment Purchase, Act 51 PA 1951, as Amended

With the approval of the Michigan Department of Transportation, the Village purchased a new tractor primarily for use on the Village streets through the use of Act 51 grant money received. The Village subsequently determined to reimburse the Street funds from the Motor Equipment Fund for this purchase and have reflected interfund receivables in the amount of \$19,058 in the Major and Local Street funds.

Budget Information

The annual budget is prepared by the Village's management and adopted by the Council and subsequent amendments to the budget are approved by the Council. The annual operating budget has been prepared on the cash receipts and cash disbursements basis of accounting and at the department/activity level. Unexpended appropriations lapse at year-end. During the current year, the budget was amended in a legally permissible manner.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Village's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a department/activity basis. During the fiscal year ended February 29, 2004, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

General Fund			
Village Council	9,000	12,027	(3,027)
Clerk	10,000	21,738	(11,738)
Treasurer	3,000	3,718	(718)
Community Promotion	300	2,480	(2,180)
Local Street Fund			
Streets	15,000	23,345	(3,958)
USDA Fund			
Village Hall Improvements	21,980	40,465	(18,485)

Unauthorized Loan

In a previous fiscal year, the former Village President loaned Village funds to a private individual for the purchase of an automobile. During the current fiscal year the individual asked Village officials for the title to the vehicle at which time he finished payment on the loan. Such use of Village funds is a violation of Article 7, Section 26 of the 1963 Michigan Constitution which states:

Except as otherwise provided in this constitution, no city or village shall have the power to loan its credit for any private purpose or, except as provided by law, for any public purpose.

VILLAGE OF VANDALIA  
NOTES TO THE FINANCIAL STATEMENTS  
February 29, 2004

**NOTE D--CASH**

Deposits are carried at cost. Deposits of the village are made in banks in the name of the Village of Vandalia Treasurer. Michigan Compiled Laws, Section 124.91, authorizes the village treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. The Village's deposits are in accordance with statutory authority.

Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the Village's cash deposits, are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	<u>\$97,340</u>	<u>\$98,361</u>
Total Deposits	<u>\$97,340</u>	<u>\$98,361</u>

**NOTE E-INTERFUND RECEIVABLES AND PAYABLES**

The amounts of interfund receivables and payables between the government funds are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General Fund	\$ 35,958	Major Street Fund	7,379
		Local Street Fund	27,987
		USDA Fund	1
Subtotal	<u>\$ 35,958</u>	Motor Equipment Fund	<u>591</u>
		Subtotal	<u>35,958</u>
Major Street Fund	\$ 19,058	Motor Equipment Fund	19,058
Local Street Fund	19,058	Motor Equipment Fund	19,058
CDBG Fund	4,000	General Fund	4,000
Motor Equipment Fund	67,739	General Fund	13,548
		Major Street Fund	27,204
Subtotal	<u>67,739</u>	Local Street Fund	<u>26,987</u>
		Subtotal	<u>67,739</u>
Total	<u>\$145,812</u>		<u>\$145,812</u>

**NOTE F--FIXED ASSETS**

A summary of proprietary fund type (Motor Equipment Fund) fixed assets at February 29, 2004 follows:

Equipment	\$ 95097
Less: Accumulated Depreciation	<u>57,652</u>
Net Fixed Assets	<u>\$ 37,445</u>

VILLAGE OF VANDALIA  
NOTES TO THE FINANCIAL STATEMENTS  
February 29, 2004

**NOTE G-RISK MANAGEMENT**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Village is insured with the Michigan Municipal Liability and Property Pool. Workmen's compensation coverage is acquired from the Accident Fund of Michigan.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Village pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member payments determined necessary by the Pool Board.

During fiscal year end February 29, 2004 and the previous two years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

**NOTE H-CONTINGENT LIABILITIES**

The Village, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Village's attorney and insurance carrier estimate that the potential claims against the Village, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Village.

**NOTE I - TRANSFERS IN AND TRANSFERS (OUT)**

The operating transfers from Exhibits 2 and 3 can be summarized as follows:

<u>Fund</u>	<u>Transfer Out</u>	<u>Fund</u>	<u>Transfer In</u>
General Fund	\$ 6,667	USDA Fund	6,667
Major Street Fund	6,667	USDA Fund	6,667
Local Street Fund	<u>6,666</u>	USDA Fund	<u>6,666</u>
Total	<u>\$20,000</u>		<u>\$20,000</u>

These transfers are the "local match" for the USDA grant used to repair the Village Hall.

Major Street Fund	6,509	Local Street Fund	6,509
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The Major Street Transfer Out to the Local Street Fund is in within the 25% limitation stated in Act 51 PA 1951, as amended.

VILLAGE OF VANDALIA, CASS COUNTY

Exhibit 6

Combining Statement of Assets and Liabilities Arising from Cash Transactions  
All Special Revenue Funds  
February 29, 2004

	Major Street Fund	Local Street Fund	USDA Fund	CDBG Fund	Total
<u>Assets</u>					
Cash	\$ 42,841	\$ 41,365	\$ 966	\$ 1,392	\$ 86,564
Due From Other Funds	19,058	19,058		4,000	42,116
Total Assets	<u>\$ 61,899</u>	<u>\$ 60,423</u>	<u>\$ 966</u>	<u>\$ 5,392</u>	<u>\$ 128,680</u>
<u>Liabilities and Fund Equity</u>					
<u>Liabilities</u>					
Due to Other Funds	34,583	54,974	\$ 1		89,558
<u>Fund Equity</u>					
Fund Balance	27,316	5,449	965	5,392	39,122
TOTALS	<u>\$ 61,899</u>	<u>\$ 60,423</u>	<u>\$ 966</u>	<u>\$ 5,392</u>	<u>\$ 128,680</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VANDALIA, CASS COUNTY**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS**  
**AND CHANGES IN FUND BALANCE--SPECIAL REVENUE FUNDS**  
**For the Year Ended February 29, 2004**

**EXHIBIT 7**

	Major Street	Local Street	USDA Fund	CDBG Fund	Total
Revenues					
State Grants	\$ 26,375	\$ 12,805			\$ 39,180
Federal Grants			\$ 21,430		\$ 21,430
Interest and Rentals	266	256		\$ 2	524
Other				212	212
Total Revenues	<u>26,641</u>	<u>13,061</u>	<u>21,430</u>	<u>214</u>	<u>61,346</u>
Expenditures					
Current					
Public Works	10,613	23,345			33,958
Community and Economic Development				119	119
Capital Outlay			40,465		40,465
Total Expenditures	<u>10,613</u>	<u>23,345</u>	<u>40,465</u>	<u>119</u>	<u>74,542</u>
Excess of Revenue Over (Under) Expenditures	<u>16,028</u>	<u>(10,284)</u>	<u>(19,035)</u>	<u>95</u>	<u>(13,196)</u>
Other Financing Sources (Uses)					
Operating Transfers In		6,509	20,000		26,509
Operating Transfers (Out)	<u>(13,175)</u>	<u>(6,666)</u>			<u>(19,841)</u>
Total Other Financing Sources (Uses)	<u>(13,175)</u>	<u>(157)</u>	<u>20,000</u>	<u>-</u>	<u>6,668</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	2,853	(10,441)	965	95	(6,528)
Fund Balance--March 1, 2003	<u>24,463</u>	<u>15,890</u>		<u>5,297</u>	<u>45,650</u>
Fund Balance--February 29, 2004	<u>27,316</u>	<u>\$ 5,449</u>	<u>\$ 965</u>	<u>\$ 5,392</u>	<u>\$ 39,122</u>

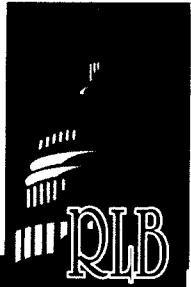
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February 18, 2005

Village of Vandalia  
Cass County  
P.O. Box 57  
Vandalia, Michigan 49095

Dear Council Members:

I was engaged to audit the statement of assets, liabilities and fund equity arising from cash transactions of the Village of Vandalia and the related statement of receipts, disbursements, and changes in retained earnings and cash flows for the year ended February 29, 2004, and have issued my report thereon dated February 18, 2005.

In planning and performing my audit of the statement of assets, liabilities and fund equity arising from cash transactions of the Village of Vandalia and the related statement of receipts, disbursements, and changes in retained earnings and cash flows for the year ended February 29, 2004, I considered the Village's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the Village of Vandalia is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.



I noted certain matters involving the internal control structure and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the statement of assets, liabilities and fund equity arising from cash transactions and the related statement of receipts, disbursements, and changes in retained earnings and cash flows. These conditions are more fully explained in the attached report of comments and recommendations.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that error or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended for the information of management and other regulatory agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in cursive script, reading "Richard L. Baldermann".

Richard L. Baldermann, CPA

Village of Vandalia  
Comments And Recommendations  
February 29, 2004

**NONCOMPLIANCE WITH STATE STATUTES**

My examination revealed the following instances of noncompliance with State Statutes.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

During the fiscal year ended February 29, 2004, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

General Fund			
Village Council	9,000	12,027	(3,027)
Clerk	10,000	21,738	(11,738)
Treasurer	3,000	3,718	(718)
Community Promotion	300	2,480	(2,180)
Local Street Fund			
Streets	15,000	23,345	(3,958)
USDA Fund			
Village Hall Improvements	21,980	40,465	(18,485)

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

**Unauthorized Loan**

In a previous fiscal year, the former Village President loaned Village funds to a private individual for the purchase of an automobile. During the current fiscal year the individual asked Village officials for the title to the vehicle at which time he finished payment on the loan.

Such use of Village funds is a violation of Article 7, Section 26 of the 1963 Michigan Constitution which states:  
Except as otherwise provided in this constitution, no city or village shall have the power to loan its credit for any private purpose or, except as provided by law, for any public purpose.

I recommend that loans of Village funds be prohibited by the Village Council.

Village of Vandalia  
Comments And Recommendations  
February 29, 2004

**OTHER REPORTABLE CONDITIONS**

Although the following are not considered material weaknesses in the internal control structure, my audit disclosed certain other reportable conditions that I wish to point out for consideration by the management of the Village of Vandalia.

**Official Receipts**

Receipts were not individually posted to the general ledger. Other receipting errors noted are as follows:

- ☐ No receipts were written for tax collection sundry persons after balancing the tax collection records and preparing the bank deposit;
- ☐ Checks written to transfer money from Major Street Fund to Local Street Fund were not always receipted; and
- ☐ Several receipts were written out of order.

I recommend that receipts be written for all cash and checks received and entered into the general ledger on an individual basis.

**Incorrect Classifications**

There were an excessive number of misclassifications of expenditures as follows:

1. Charges for Services **REVENUE** account was used for numerous checks issued;
2. Postings to Major and Local Street fund accounts "Due To/From", "Transfers In/Out", and "State grant" were inconsistent and several were incorrect; and
3. Payroll taxes withheld and employers share of SS & Medicare are misclassified.

The above errors result in inaccurate reports being submitted to the Council and management decisions are affected by these errors. More care must be exercised when classifying expenditures. Further, payroll taxes withheld and employers share of SS & Medicare posted to the correct accounts will provide a means of verification when paying the Federal and State governments for these taxes.

**General Fixed Assets Records**

The Village of Vandalia's general fixed assets recorded in the financial statements have not been updated as required by generally accepted accounting principles since 1993.

Generally accepted accounting standards require that a complete and up-to-date listing of the Village's assets be maintained and included in the financial records of the Village.

I recommend that the Village take appropriate action to assure that detailed records of the Village's general fixed assets are prepared annually, kept on file, and the information is recorded in the general fixed assets account group in the general ledger.